VZCZCXRO2027
RR RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHNP RUEHPOD RUEHROV RUEHSK RUEHSR RUEHVK RUEHYG
DE RUEHBW #1262/01 3441526
ZNR UUUUU ZZH
R 091526Z DEC 08
FM AMEMBASSY BELGRADE
TO RUEHC/SECSTATE WASHDC 0721
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/DEPARTMENT OF COMMERCE WASHINGTON DC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS SECTION 01 OF 02 BELGRADE 001262

SIPDIS
USDOC FOR 4232/ITA/MAC/EUR/OEERIS/SSAVICH

E.O. 12958: N/A
TAGS: ECON EINV ETRD EFIN SR
SUBJECT: SERBIA: GOVERNMENT ADOPTS 2009 BUDGET DRAFT

Ref: A) Belgrade 1222 B) Belgrade 1158

SUMMARY

¶1. On Saturday, December 6, the Serbian government adopted its 2009 budget proposal and forwarded it to the Parliament after delays due to disputes among ministers over resources. The government managed to meet the IMF deadline - the December 19 IMF Board vote on the Stand-By Arrangement with Serbia - and agreed to a consolidated deficit of 1.5% of GDP. Despite a nominal increase in expenditures of 7.5% over the rebalanced 2008 budget, the draft budget cut public consumption's share of GDP from 45% to 43%. The Finance Minister said the draft was a "rigorous" cut in public consumption, while experts' opinions varied. The key test will be whether the economy achieves the assumed 3.5% growth in 2009 and inflation is kept at 8%. End Summary.

Expenditures Up by 7.5%, But Share in GDP Down by 2%
-- ------

¶2. The Serbian Government finally adopted a draft 2009 budget on Saturday, December 6, after several postponements following disputes among ministers over appropriations, and sent it to the Parliament for urgent adoption. The budget projected revenues of $10.38 billion, expenditures of $11.12 billion, and a deficit of $737 million. Although projected 2009 expenditures and revenues were both up by 7.5% nominally over the rebalanced 2008 budget, the share of public consumption in GDP was projected to decrease by 2% to 43% of GDP. Also, despite a nominal increase in the budget deficit of 8%, the consolidated deficit as a percentage of GDP was projected to decrease from 2% to 1.5%.

Basics: Growth 3.5%, Inflation 8%, EU Interim Agreement
-- -

¶3. According to Finance Minister Dragutinovic the budget projected that the worldwide crisis would hit Serbia in 2009 and although "it is not possible to predict all effects on Serbian economy" the assumptions included a slow down in GDP growth in 2009 to 3.5%, inflation of 8%, export and import drops of 4.8% and 5.4% respectively, and a current account deficit of 16% of GDP. The proposed budget included: implementation of the Interim Trade Agreement with the EU, cutting import duties on automobiles by half, and government investment in the joint venture with Fiat of around $254 million. The budget included implementation of the EU Interim Trade Agreement after intervention by Economy and Regional Development Minister Dinkic. Implementing the Interim Trade Agreement added to the fall in customs revenues as the trade agreement reduced import tariffs on a broad range of goods. To compensate the government will hit Serbians pocketbooks with increases in excise taxes on those things most dear to the average Serbian cigarettes, coffee and beer, and an increase in car registration fees. Excise taxes will also increase on oil derivatives (gasoline and diesel).

Cuts in Subsidies, Increase in Pension Transfers

-- ---

¶4. Dragutinovic explained that public sector wages would increase at the same rate as inflation while pensions would remain at December 2008 levels (after the controversial 10% extraordinary increase given in September). Major cuts were made in subsides to utilities, agriculture, railways, and socially-owned companies from $720 million to $609 million, capital expenditures from $876 million to $594 million. On the other hand, budget transfers to social insurance organizations (the Pension Fund, Health Fund and Unemployed Fund) would increase by 30% from $2.66 billion) to $3.46 billion thus increase its share in total budget expenditures from 25.7% in 2008 to 31.2% in 2009. Added to wages and social allowances, these transfers accounted for 70% of the budget.

Deficit Covered by Sale of NIS and New Borrowing
-- ---

¶5. The government proposed to cover the budget deficit of $737 million together with debt repayment of $636 million from privatization revenues of $742 million, including revenues from the sale of state oil firm NIS (ref A) and new borrowing of $301 million.

Finance Minister Satisfied, Experts Opinion Vary
-- ---

¶6. Finance Minister Dragutinovic stated at a December 6 press conference that she was satisfied since the budget reflects responsible state behavior and was extremely restrictive. Economists' evaluations of the restrictiveness of the budget varied significantly. Some praised the governments' attempts to restrict spending growth, while others cautioned that the economic

assumptions in the budget were optimistic.

COMMENT

¶7. The Serbian government managed to adopt a budget proposal that is at least nominally in line with IMF requirements. The pressure of the IMF Stand-By Arrangement helped to focus politicians on the difficult economic environment as some in the government had hoped. At the same time, the internal battles and delays that postponed the government meeting to adopt the budget highlighted the political horse-trading required to bring the government's wide-ranging coalition partners on board. Although the opposition parties announced they would vote against the budget in Parliament, the government should now have the votes to pass it. The real challenge is only just beginning, as Serbia will implement a fiscally conservative budget in the midst of the worldwide financial crisis with the hopes of attracting sufficient international investment to keep growth numbers at least barely positive. End Comment.

MUNTER